

CASE STUDY 2

The upgrading journey - using finance to make it as simple as possible

Timothy & Sophie Sharp



Tim & Sophie are Melbourne locals – born and bred. They bought their first home in Melbourne in 2010 and had lived in it for 6 years. Tim & Sophie were blessed with two little children over their 6 years at their Essendon property. They decided to explore the opportunity to upgrade their existing home to a larger house in a better school catchment, but wanted to do it as seamlessly as possible.

Tim & Sophie wanted to sell their existing home rather than holding onto it as an investment.



The details:

House Price:	\$840,000
Location:	Eastern Melbourne
Purchase date:	December 2016



Finance considerations:

With two little ones quickly growing, Tim & Sophie wanted the process to be as simple as possible.

Their immediate priority is to purchase the new property, settle in & pay the loan down over the next 4-5 years. Tim & Sophie have no current or future plans to invest in property.



Finance plans:

Our goal was to find a solution that would ensure Tim & Sophie can move into their new home, while keeping their stress & hassle to a minimum.

While upgrading the family home, there's usually a few ways purchases can be structured:

BRIDGING LOAN OPTION

This option would allow Tim & Sophie to buy before selling their existing home. However, it comes at a hefty loan mortgage insurance fee. Bridging loans involve having two properties at the same time for a temporary period. This meant a high temporary loan to value ratio above 80% and a mortgage insurance fee of above \$7,000!

ASSETS:

- i. Existing home value: \$550,000
- ii. New property value: \$800,000
- iii. Total 'asset position' for temporary period: \$1.35mill

LIABILITIES:

- iv. Existing loan: \$250,000
- v. New 'bridging loan' required for temporary period: \$850,000 (\$50,000 to cover costs of purchasing).
- vi. Total 'liability position' for temporary period: \$1.07mill

BUY & SELL ON THE SAME DAY

This option would mean that Tim & Sophie will line up the purchase of the new home settlement date, with the sale of their home. This invariably can be stressful managing multiple settlements & having a forced position of settling on the same day. Tim &

Sophie noted that this will drastically hurt their negotiation power as they would likely require a longer settlement period & many sellers in their favourite suburb weren't willing to do this.

Given the stress levels & consequences involved, this also wasn't an ideal solution.

SELL FIRST, RENT TEMPORARILY & BUY AGAIN

Here Tim & Sophie would need to move twice. First into a rental property & then into their home. While this would take the pressure of selling within a certain date, they immediately ruled this option out.

BUY FIRST, SELL AFTER

Similar to a bridging option, Tim & Sophie had the borrowing power & equity available to purchase their new home first & then sell their existing property in their own time later. Here Tim & Sophie would have the option of turning their old home into an investment before selling, or selling right away.

- a. In this option, we set up an equity release against their own home. It was valued at \$550,000. The bank would provide up to \$440,000 without any mortgage insurance fees (\$550,000 x 80%). This allowed for a \$190,000 equity release, with their existing loan of \$250,000 remaining.
- b. Tim & Sophie used this \$190,000 as the deposit for their purchase.



Results:

This allowed Tim & Sophie to buy first, sell in their own time & do it all without paying any mortgage insurance fee. They saved themselves over \$7,000 in fees by structuring their finance appropriately to meet their goals.

Tim & Sophie were very happy come auction day for their own home – their house sold for \$40,000 above their \$550,000 reserve. A nice little gift to help Tim & Sophie lower their ongoing mortgage!

Here's what Tim & Sophie had to say about dealing with Confidence Finance



We're so glad our friends referred us to Redom & Curtis. We actually went into our local broker before our family friends told us to talk to Redom. While he was friendly and supportive, he simply presented a series of loan options to us. Redom & Curtis literally saved us thousands by coming up with a clear plan, a series of actions & then delivering the right loan results to solve our upgrading issue. Turns out their innovative thinking solved our problem. At first we were a bit hesitant dealing with a Sydney firm, but it turns out talking to experts & the right people was far more rewarding than dealing with less knowledgeable people. I couldn't recommend the team at Confidence more highly – in fact I've already told my family all about Redom & Curtis.

